

Mahindra & Mahindra Financial Services

Investment overview

- Mahindra & Mahindra Financial Services, a subsidiary of M&M is one of India's leading nonbanking finance companies focused in the rural and semi-urban sector.
- MMFSL's stake sale in the insurance arm was done at an attractive valuation and provided the insurance arm with the necessary funds to grow.
- MMFSL's higher credit rating and strong brand equity enable it to borrow funds at competitive rates.
- The company for the passing two quarters has been registering a disbursement growth of 25%.

Business Overview

Mahindra and Mahindra Financial Services Limited (MMFSL) was incorporated in 1991 and commenced operations in 1993, is presently one of India's leading non-banking finance companies. Initially it provided financing to dealers of Mahindra & Mahindra Limited.

Mahindra Finance and its subsidiaries offer a complete range of financial services and insurance solutions for both businesses and personal life. The company's flagship financial services business provides vehicle, asset, and personal financing. While the general and life insurance broking services provide customers with security and protection. The company also provides rural housing finance for new construction and renovation. Its business insurance plans protect the small businesses that drive employment and economic growth and safeguard against risks that might otherwise have lifelong ramifications.

MMFSL mainly provides financing for multi-utility vehicles, loans for cars, two wheelers, three wheelers, commercial vehicles, tractors and construction equipments. The company also provides auto refinance' option of fast and easy loans for the purchase of used cars, utility vehicles, used commercial vehicles and used tractors. Furthermore, a subsidiary of MMFSL 'Mahindra Rural Housing Finance' also provides cost-effective and flexible home loans to a wide base of customers in rural and semi-urban India.

The company also provides its services in mutual fund. The Mutual Fund Distribution team of Mahindra Finance started its operation in September 2005 with necessary approvals from RBI. The team is spread widely across the Southern, Western & Northern states of India. While, Mahindra Insurance Brokers Ltd., a subsidiary of MMFSL, provides comprehensive Insurance solutions, in its bid to offer complete financial solution to clients.

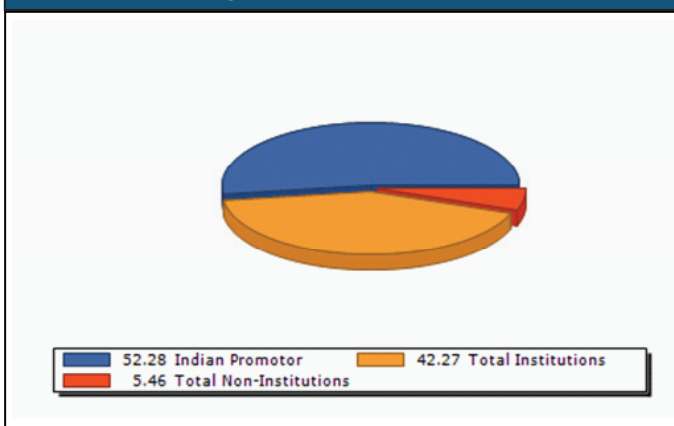
The company is having more than two million relationships with customers in rural and semi-urban India, making it the largest non-banking financial company (NBFC) in the country. MMFSL's rural financing is considered as the cornerstone of poverty reduction, rural development and inclusive growth in many parts of the country.

Financial Health

For the quarter ended September 30, 2012 Mahindra Finance reported a 38% growth in net profit at Rs 188 crore compared

Stock Data	18/12/2012
Current Mkt Price (Rs)	1078.75
52 Week High	1151.00
52 Week Low	590.10
Mkt Cap (Rs. in Cr)	12271.10
Return in last one Month (%)	9.66

Share Holding



Performance in last one year



Y-o-Y Performance

Particulars	Mar-12	Mar-11	Change(%)
Net Sales	2884.90	2025.61	42.42
Other Income	60.12	64.38	-6.62
Total Expenditure	823.54	659.95	24.79
Operating Profit	2121.48	1430.04	48.35
Interest	1139.90	666.18	71.11
Profits After Tax	644.52	493.66	30.56
Reserve & Surplus	2921.35	2440.44	19.71
Reported EPS(Rs)	62.67	48.10	30.29
Core EBITDA Margin (%)	71.45	67.42	5.98

to Rs 136 crore in the July-September quarter of 2011-12 fiscal. Total income of the company rose by 44% to Rs 929 crore during the quarter, from Rs 646 crore in the same period last year.

For the first half, the Total Income of the company increased by 47% at Rs 1768 Crore as against Rs1206 crore in the corresponding period last year. PAT registered a growth of 47% to Rs. 349 crore during the half year ended 30th September 2012 as compared to Rs 238 crore during the corresponding period last year.

Disbursements by the company grew by 25% in the first half, while the total assets managed by the company as of September, 2012 stood at Rs 23,770 crore.

Industry Scenario

A strong banking and financial sector is very crucial for facilitating higher economic growth and NBFCs have a definite and very important role in the financial sector, particularly in a developing economy like ours. The industry has roughly around 12,000 registered players of which nearly 75% are small NBFCs. The NBFCs have scored mainly in the areas of granular reach and credit delivery to the bottom of the so-called customer pyramid. NBFC industry in India has undergone various structural changes (change in business models, change in the broader market dynamics and change in the regulatory regime) since the start of the decade, and is today a more mature and developed industry, particularly after having tackled, one of the most difficult phases in its history- the global economic crisis of 2008-2009.

India's non-banking financial institutions have experienced real progress, strengthening the country's journey towards inclusive growth. The Government's initiatives have further fuelled sectoral growth, as NBFCs primarily cater to the financing needs of rural and semi-urban India.

The whole environment has been changing for the NBFC making the survival more challenging, recently apart from hiking CAR, the Reserve Bank of India (RBI) has excluded loans given to non-Banking finance companies from the priority list, thereby upping the cost of funds for the already beleaguered sector. NBFCs depend on banks for 80% of their credit requirement. About 10-12% of the total bank loans are classified as priority sector loans. With RBI removing the priority sector lending tag from loans to NBFCs, the latter now lose the benefit of concessional interest rates that they have been getting so far. With concessional rate no longer being available, the problem will be only on the interest cost front.

A combination of firm interest rates, escalating fuel prices and sticky inflation has severely dented India's automobile industry growth. Against the backdrop of around 30% growth over the preceding few years, the industry registered only 12% growth in FY-2012, lowering the scope of vehicle financing. In addition, sluggish financial activity impacted the medium and heavy commercial vehicle financing. However, light commercial vehicle financing remained stable, leveraging enhanced segmental sales.

Investment Rationale

- Mahindra Finance continued its good performance in the second quarter with a healthy profit growth of around

Q-o-Q Performance

(Rs. in Cr.)			
Particulars	Sep-12	Sep-11	Change(%)
Net Sales	969.79	677.29	43.19
Expenditure	278.46	214.38	29.89
Other Income	5.83	9.12	-36.00
EBITDA	697.17	472.02	47.70
Interest	401.55	262.68	52.86
Net Profit	192.97	136.59	41.28
EBITDA Margin (%)	0.72	0.70	3.15
NPM (%)	0.02	0.02	-1.33
EPS	18.74	13.30	40.90

Profit & Loss

(Rs. in Cr.)			
Particulars	Mar-12	Mar-11	Change(%)
Net Sales	2884.90	2025.61	42.42
Total Income	2945.02	2089.99	40.91
Total Expenditure	823.54	659.95	24.79
Operating Profit	2121.48	1430.04	48.35
Profits After Tax	644.52	493.66	30.56

Balance Sheet

(Rs. in Cr.)			
Particulars	Mar-12	Mar-11	Change(%)
Share Capital	102.69	102.45	0.23
Reserve & Surplus	2921.35	2440.44	19.71
Total Liabilities	13405.86	9635.79	39.13
Investments	10076.03	7195.69	40.03
Current Liabilities	5590.89	3861.36	44.79
Net Current Assets	3023.72	2141.41	41.20
Total Assests	13405.86	9635.79	39.13

Key Ratios

Particulars	Mar-12	Mar-11
Reported EPS (Rs)	62.67	48.10
Core EBITDA Margin (%)	71.45	67.42
EBIT Margin (%)	72.83	69.80
ROA (%)	3.92	4.28
ROE (%)	23.16	22.98
ROCE (%)	14.00	13.72
Price/Book (x)	2.27	3.14
Net Sales Growth (%)	42.42	29.75
EBIT Growth (%)	48.61	35.57
PAT Growth (%)	30.56	38.63
Total Debt/Mcap (%)	2.13	1.22

Peer group comparison (Rs. crore)

*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS	P/E*
Mah & Mah Finl. Serv	201203	2767.70	2001.96	620.12	22.41	60.39	16.79
Shriram Trans. Fin	201203	5889.17	4379.16	1257.45	21.35	55.57	19.31
L&T Finance Holdings	201203	111.84	85.87	71.25	63.71	0.42	190.16
Reliance Capital	201203	3222.00	2588.00	519.00	16.11	21.18	13.09

40% in both standalone and consolidated numbers despite increased borrowing cost. Not only this, the company registered a disbursement growth of 25%, maintaining its leadership position for vehicles and tractors in the rural and semi urban markets. In the first half of the year the company was able to improve its performance as a car and utility vehicle financier and achieved growth in financing of Light and Heavy Commercial Vehicles and Construction Equipment.

- The company has been continuously spreading its reach and is presently having 628 offices covering 24 states and 4 union territories in India, with over 2.2 million vehicle finance customer contracts since inception, as of September 30, 2012. The company has plans to increase this strong branch network by 10% each year. Apart from this, about 96% of its offices are connected to the centralised data centre in Mumbai. Further, it has established Mahindra Finance Academy for training prospective and present employees at 5 locations. While, the company already has \$220 million worth of business in the US after it entered into a 49:51 joint venture last year with the US-based De Lage Landen Financial Services, a wholly-owned subsidiary of Rabobank Group to provide inventory financing services to US-based dealers who would purchase M&M products. It is now considering setting up offices in China, South Korea and South Africa by next year.
- Mahindra Finance provides a wide range of vehicle loans, to suit various needs, right from finance for two wheelers, tractors, cars, utility vehicles to commercial vehicles. Apart from financing new vehicles, it also has refinance loans available for used and pre-owned vehicles of all kinds and brands. Despite slow down there has been a consistent rise in the vehicle sales and so do the car loans, which are likely to increase further. In India, as only 9 out of every 1000 people own a car in the country, as against 15 in China and 140 in Brazil. By 2015-16, in India, 19 in every 1000 people are expected to own a car. The small-car segment is expected even a faster 15-17% growth, besides, the light commercial vehicle sales are expected to grow by 20-22% in 2013, while the medium and heavy commercial vehicles are likely to grow by 10-12% for the same period, mainly driven by increase in income of households. Further, its 2-million-strong customer base provides it the advantage to emerge as a preferred partner with OEMs like Maruti and

Hyundai in addition to Mahindra Group. It is also in talks with Nissan and Toyota who want to set up their dealerships in rural areas and are looking at MMFS as their partner.

- In last quarter the company decided to sale 12.37% stake in its wholly-owned subsidiary Mahindra Insurance Brokers (MIBL) to Inclusion Resources Private, a subsidiary Company of Leapfrog Financial Inclusion Fund, incorporated in Singapore, for an amount aggregating Rs. 64.33 crores. MIBL has shown big improvement in last few quarters and its total income more than doubled, while the profits quadrupled in last one year. During the half year ended 30th September 2012, MIBL registered income at Rs 37.68 crores as against Rs 16.18 crores, registering a growth of 133% over the same period previous year. Its profit zoomed by 434% to Rs 14 crore. Further, MIBL has entered into a strategic partnership with LeapFrog Investments to design and deliver insurance solutions to millions in rural India. MMFSL's stake sale in the insurance arm was done at an attractive valuation and provided the insurance arm with the necessary funds to grow. Moreover, decline in the borrowing cost will further help the company in improving its NIMs.
- At the CMP of Rs 1078.75, MMFSL is trading at a TTM P/E of 16.79x and P/BV of 2.94x, we would recommend 'BUY' in the scrip with a price target of Rs 1260.00 for a long term outlook with an estimated P/E of 10.9x FY13 and P/BV of 2.11x. Mahindra Finance is India's largest rural non-bank finance company it has enhanced its customer base considerably and crossed the two-million benchmark in the last fiscal. The company has been maintaining a proper asset liability mix, capital adequacy and a calibrated approach towards investment since inception. RBI's recently announced draft guidelines for capital in the NBFC sector are less stringent than feared and as they have to be complied in two years time the company has enough time to adept to the changes. Further, the company is aiming to become a full-fledged financial services company and has already received in-principle approval from Sebi for an asset management company. Its latest deal to sell stake in insurance business can be seen as rise in foreign interest in the company, giving a possibility of further expansion. Not only this, the latest partnership deal has increased the valuation of Mahindra Insurance Broking to Rs 520 crore and the management is hopeful of making the company a leading insurance broker in India by 2015.

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